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FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 6694
INFO AMEMBASSY BEIRUT
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL DHAHRAN
AMEMBASSY THE HAGUE
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY VIENNA
USMISSION EC BRUSSELS
USMISSION NATO
USMISSION OECD PARIS
AMEMBASSY BENGHAZI

S E C R E T TRIPOLI 1658

SUBJECT: OIL SUPPLY SITUATION

REF: STATE 106295

1. OF FACTORS RESPONSIBLE FOR CURRENT TANKER SHORTAGE, FURTHER APPLICATION OF PRODUCTION RESTRICTIONS IN LIBYA CAN BE EXPECTED TO CAUSE WORSENING OF SITUATION OVER NEXT FEW MONTHS. EMBASSY WAS INFORMED BY RESPONSIBLE PETMINISTRY OFFICIAL IN MAY THAT LIBYAN

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DEPARTMENT OF STATE A/CDC/MR
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TS AUTH. REASON (S)
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PRODUCTION WOULD BE REDUCED TO ABOUT 3 MILLION B/D. BECAUSE OF IMPLEMENTATION OF CONSERVATION CONTROLS. MORE RECENTLY EMBASSY LEARNED FROM PERUSAL OF BOOTLEGGED COPY 1970 DEVELOPMENT PLAN THAT LIBYAN OIL PRODUCTION FOR FISCAL 1970 IS ESTIMATED TO AVERAGE 3.35 MILLION B/D -- INCREASE OF 8 PER CENT OVER PREVIOUS YEAR COMPARED WITH INCREASES OF UP TO 50 PER CENT ANNUALLY SINCE 1967. BOTH OF THESE FORECASTS ARE BEING BORNE OUT BY DEVELOPMENTS.

2. FOR FIRST FOUR MONTHS OF 1970, LIBYAN PRODUCTION ROSE AT RATE OF 22.5 PER CENT, REACHING PRODUCTION PEAK OF 3.67 MILLION B/D FOR APRIL. RESTRICTIONS ON PRODUCTION POTENTIAL OF 370,000 B/D FOR OCCIDENTAL AND 120,000 B/D FOR AMOSEAS WERE IMPOSED IN MAY AND JUNE RESPECTIVELY. THESE MEASURES, PLUS WELL SPACING PATTERN IMPOSED ON ESSO, HAVE REDUCED CURRENT PRODUCTION TO ABOUT 3.2 MILLION B/D. ADDITIONAL CUTBACK OF 510,000 B/D WILL BECOME EFFECTIVE FOR OASIS IN LATE JULY. COMPANY SOURCES INDICATE APPLICATION OF PRODUCTION CONTROL FORMULA TO OTHER PRODUCERS COULD RESULT IN FURTHER CUT-BACKS OF UP TO 35,000 B/D FOR ESSO, 20,000 B/D FOR MOBIL AND 5,000 B/D FOR MINOR PRODUCERS. AMONG MAJOR PRODUCERS, ONLY BP/BUNKER HUNT MAY NOT BE AFFECTED. EMB CONSIDERS FURTHER CUT-BACKS OF THIS ORDER LIKELY BY SEPTEMBER, REDUCING TOTAL PRODUCTION TO ABOUT 3 MILL B/D. HOWEVER, SOME INCREASE FROM THIS LEVEL IS LIKELY -- BECAUSE OF REFINEMENT OF PRODUCTION CONTROLS AND PERMISSION TO PRODUCE NEW WELLS AS MINISTRY EVALUATES DATA PREVIOUSLY DENIED IT BY COMPANIES -- SO THAT AVERAGE PRODUCTION FOR FISCAL YEAR (APRIL 1970-MARCH 1971) PROBABLY WILL BE CLOSE TO 3.3 MILLION B/D ESTIMATED IN DEVELOPMENT PLAN.

3. COMMENT: LIBYAN OIL PRODUCTION CAN BE EXPECTED TO DECLINE FURTHER OVER NEXT TWO MONTHS, AS APPLICATION OF LARG'S CONSERVATION PROGRAM BROADENS, BUT PROBABLY WILL SHOW SLIGHT NET INCREASE DURING WINTER SEASON. HOWEVER, TANKER SHORTAGE IS UNLIKELY TO BE RELIEVED BY SIGNIFICANTLY GREATER QUANTITY OF SHORT-HAUL CRUDE BECOMING AVAILABLE FROM LIBYA. LARG IS AWARE OF EFFECT ITS PRODUCTION RESTRICTIONS HAVE HAD ON EUROPEAN OIL SUPPLY, BUT THERE IS NO EVIDENCE CONSUMING COUNTRIES HAVE TRIED TO INFLUENCE LARG TO PERMIT HIGHER PRODUCTION RATES OR THAT SUCH EFFORTS WOULD BE VERY EFFECTIVE IF THEY WERE ATTEMPTED. IN FACT, PETMIN OFFICIALS APPEAR TO BELIEVE PRODUCTION CONTROLS ARE IN LONG-TERM INTEREST OF CONSUMERS AS WELL AS OF LIBYA, FOR SHORT-HAUL LIBYAN CRUDE WILL REMAIN AVAILABLE TO EUROPE FOR LONGER PERIOD IF PRODUCED AT LOWER RATE INTENDED TO MAXIMIZE RECOVERABLE RESERVES.

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4. CONTRARY TO ITS VIEW WHEN MANNER AND TIMING OF INITIAL RESTRICTIONS IMPOSED ON OCCIDENTAL LED EMBASSY TO CONCLUDE THAT RESTRICTIONS WERE INTENDED AS PRESSURE TACTIC TO INFLUENCE POSTED PRICE NEGOTIATIONS, EMB NOW BELIEVES PRODUCTION RESTRICTIONS ARE PART OF CONSERVATION PROGRAM AND ARE INTENDED, PRIMARILY, TO STRETCH RECOVERABLE RESERVES AND, SECONDARILY, TO FORCE COMPANIES (IN SUPPORT OF THEIR ARGUMENTS FOR INCREASED ALLOWABLES) TO YIELD RESERVOIR DATA AND INTERPRETATIONS PETMINISTRY REQUIRES TO IMPROVE AND EFFECTIVELY TO ADMINISTER CONSERVATION PROGRAM. POSSIBILITY REMAINS THAT LIBYAN OIL SUPPLIES COULD BE INTERRUPTED BECAUSE OF CONFLICT OVER POSTED PRICE OR BECAUSE OF POLITICAL DECISION TAKEN AS CONSEQUENCE OF MIDDLE EAST DEVELOPMENTS, BUT THESE CONSIDERATIONS, IN EMBASSY'S VIEW, ARE NOT RESPONSIBLE FOR PRESENT PRODUCTION RESTRICTIONS. LARGE CONSERVATION PROGRAM APPEARS TO BE CONTROLLED BY PRODUCTION FORMULA ADOPTED FROM ALBERTA, CANADA, BUT WE DO NOT EXCLUDE POSSIBILITY THAT, FOR LONGER TERM, GEARING PRODUCTION LEVELS TO REVENUE REQUIREMENTS MAY BECOME IMPORTANT CONSIDERATION. IN ANY CASE, LIBYA'S REMARKABLE PRODUCTION INCREASES OF PAST YEARS APPEAR TO BE OVER. GP-4.
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AMOUNT OF OIL PRODUCTION CUT-BACK FOR OASIS GIVEN PARA 2
REFTEL SHOULD BE 150,000 B/D NOT RPT NOT 510,000 B/D.
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